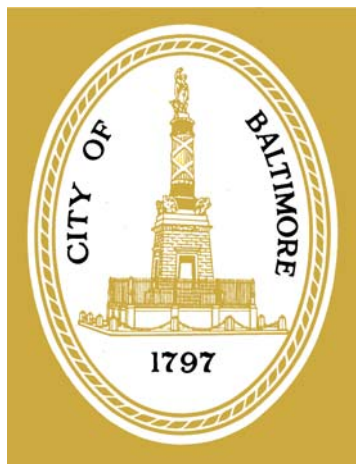


# **PERFORMANCE AUDIT REPORT**

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**CITY OF BALTIMORE**  
**DEPARTMENT OF PUBLIC WORKS**  
**BUREAU OF GENERAL SERVICES**  
**FLEET MANAGEMENT DIVISION**  
**AUDIT OF CONTRACT BP-99832**  
**GASOLINE AND FUEL OILS**  
**JUNE 2004**

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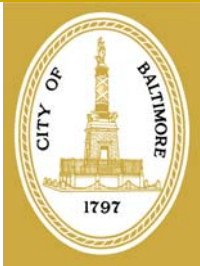


City of Baltimore  
Department of Audits

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## CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



## DEPARTMENT OF AUDITS

YOVONDA D. BROOKS, CPA  
City Auditor

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June 1, 2004

Honorable Joan M. Pratt, Comptroller  
And Other Members of the  
Board of Estimates  
City of Baltimore

We conducted a performance audit of the Baltimore City Department of Public Works, Bureau of General Services, Fleet Management Division's policies and procedures for ordering, receiving and paying for fuel procured through the Bureau of Purchases' Contract BP-99832, Gasoline and Fuel Oils for City-owned vehicles. This contract had a term of three years from July 1, 1999 through June 30, 2002, with the option of a one-year extension. That option was exercised, and the contract was extended through June 30, 2003. There were two additional amendments to this extension through April 30, 2004 and December 31, 2004, as approved by the City's Board of Estimates. We reviewed policies and procedures related to expenditures made to Twin Pines Fuels LLC for gasoline and diesel fuel during the period from July 1, 2001 through June 30, 2002.

The purpose of our audit was to determine whether adequate internal controls were in place to ensure that: 1) payments to the vendor were adequately supported, properly approved, and accurately reflected quantities of fuel delivered to the dispensing locations; 2) fuel purchases were in compliance with the contract provisions; and 3) fuel prices charged by the vendor were verified using industry price indicators.

As a result of our audit, we identified several weaknesses in the procedures for receiving fuel and for the payment of fuel bills. We recommend that the Bureau of General Services' Fleet Management Division:

- Establish written policies and procedures defining objectives and operational responsibilities.
- Establish procedures to expedite invoice processing and to require Fleet Management Division's review, verification and authorization of invoices prior to the Bureau of Accounting and Payroll Services' payment.

- Retain adequate supporting documentation for all purchases and use electronic meters to measure deliveries of fuel.
- Request Oil Price Information Service fuel pricing information from the vendor and verify that prices are consistent with industry guidelines.
- Request, in a timely manner, refunds from the State of Maryland for fuel taxes owed to the City for off-road vehicle usage.

We appreciate the cooperation and assistance provided by the staff members of the Bureau of General Services' Fleet Management Division, the Bureau of Accounting and Payroll Services and the Bureau of Purchases while conducting this audit. Their cooperation and assistance were instrumental to the completion of this audit.

Respectfully submitted,

Yovonda D. Brooks, CPA  
City Auditor

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## **Background Information**

The Bureau of General Services is one of the four bureaus that comprise the Baltimore City (City) Department of Public Works. The Fleet Management Division (Fleet) of the Bureau of General Services is responsible for the management, service, repair and replacement of most City-owned vehicles. Fleet provides maintenance and repair services from one multi-disciplined central facility and nine sub-stations. Fleet also operates fuel-dispensing stations at various locations within the City. There are eight fuel-dispensing stations with tanks having 6,000 to 10,000 gallon capacity, seven of which are underground tanks. There are an additional 18 fuel-dispensing stations with above ground tanks having 200 to 4,000 gallon capacity. The City's tanks have a total fuel capacity of approximately 93,000 gallons for diesel fuel and 80,000 gallons for gasoline.

The fuel-dispensing stations report tank measurements and/or totalizer readings daily to Fleet. Based on this information, fuel is ordered from the vendor for delivery to the dispensing stations. At the fuel-dispensing stations, fuel is pumped into various City-owned vehicles such as police cars, fire trucks, other emergency vehicles, and off-road vehicles and equipment used in the maintenance of roads, parks and recreation areas.

There have been three different primary vendors for gasoline and diesel fuel procured under Contract BP-99832. During the period from July 1999 through March 2001, Texas Liquids LLC was the primary vendor and related payments to this vendor totaled \$4,717,184. Texas Liquids LLC was succeeded by Twin Pines LLC, with activity from January 2001 through December 2002. Payments to Twin Pines LLC totaled \$6,836,667. During the period from January 2003 through February 2004, ISObunkers LLC became the primary vendor. The City has paid \$5,079,899 to ISObunkers LLC thus far. Payments to all vendors by fiscal year were:

7/01/99 – 6/30/00	\$2,539,114
7/01/00 – 6/30/01	3,964,469
7/01/01 – 6/30/02	2,969,339
7/01/02 – 6/30/03	4,202,884
7/01/03 – 2/29/04	2,957,944

Total expenditures for all the vendors under this contract were \$16,633,750 during the period from July 1999 through February 2004.

## **Audit Scope, Objectives and Methodology**

We conducted a performance audit of the Department of Public Works, Bureau of General Services, Fleet Management Division (Fleet) to evaluate its procedures for ordering, receiving, and paying for fuel used in City-owned vehicles during the period from July 1, 2001 through June 30, 2002. Our audit was conducted in accordance with generally accepted *Governmental Auditing Standards* related to performance audits, issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The objectives of our audit were to determine whether adequate procedures were in place to ensure that: 1) payments to the vendor were adequately supported, properly approved, and accurately reflect quantities of fuel delivered to the dispensing locations; 2) fuel purchases were in compliance with the contract provisions; and 3) fuel prices charged by the vendor were verified using industry price indicators.

To accomplish our objectives, we obtained an understanding of the operations of Fleet and the fuel dispensing stations for ordering and receiving fuel, and of the accounting procedures performed by the Bureau of Accounting and Payroll Services (BAPS) for payment of fuel invoices. We also reviewed the vendor contract for specific compliance requirements related thereto. We identified and interviewed key personnel involved in the execution of the contract. We performed tests of transactions to determine compliance with the City's policies and procedures as well as compliance with contract provisions.

Our audit findings and recommendations are detailed in the Findings and Recommendations section of this report. The Department of Public Works' response and the Auditor's Comments therein are included as an appendix to this report.

## Findings and Recommendations

### Conclusion

The Department of Public Works, Bureau of General Services, Fleet Management Division (Fleet) did not establish written policies and procedures that defined the objectives and operational responsibilities related to ordering, receiving and paying for fuel used in City-owned vehicles. Invoices for the purchase of fuel were sent directly to the Bureau of Accounting and Payroll Services (BAPS) for prompt payment without Fleet performing delivery verification procedures. Although Fleet had procedures to subsequently review the invoices, evidence of a comparison between the invoice and the delivery ticket was not always maintained. Delivery tickets did not always contain meter readings for fuel deliveries because attendants would bypass the meter to expedite delivery. Supporting documents for some deliveries tested for the period July 1, 2001 through June 30, 2002 could not be located. Verification of fuel prices against weekly industry guidelines was not performed in accordance with contract provisions. Refund requests for taxes paid on fuel used in off-road vehicles were not filed with the State of Maryland during the periods from July 1999 through November 2001 and March 2003 through February 2004.

### Finding #1

**Written policies and procedures were not established that defined the objectives and operational responsibilities related to ordering, receiving and authorizing payment for fuel used in City-owned vehicles.**

### Analysis

Fleet did not have written policies and procedures that defined the objectives and operational responsibilities related to ordering, receiving and paying for fuel used in City-owned vehicles. The City's Administrative Manual requires that every organization provide reasonable assurance that it adopt standards and follow adequate written policies and procedures. Fleet initiated the purchase of fuel by ordering based on information provided daily by the fuel station attendants. Receiving documents originated at the fuel dispensing stations and were sent to Fleet. Vendor invoices were sent directly to BAPS for payment.

As a result of the lack of written policies and procedures, there was no clear understanding as to who is authorized to monitor, order and receive fuel deliveries. There are also no guidelines for the verification of invoices and authorization of vendor payments. Overall responsibility for the efficient and effective operation of the purchase of fuel used in City-owned vehicles had not been clearly established.

### Recommendation

**We recommend that Fleet establish written policies and procedures that define the objectives and operational responsibilities related to ordering, receiving and**

**authorizing payment for fuel used in City-owned vehicles. Overall responsibility for the purchase of fuel should be established within Fleet.**

**Finding #2**

**Vendor invoices were sent directly to BAPS for payment processing, without prior verification and authorization by Fleet.**

**Analysis**

Invoices for fuel purchased under Contract BP-99832 were sent directly to BAPS for immediate payment without prior verification and authorization by Fleet. BAPS was instructed to pay invoices immediately so that fuel deliveries were not delayed. Fleet received copies of the invoices after payment was made.

The City's Administrative Manual, AM 308-1 states that the agency (Fleet) is responsible for monitoring the progress of the order by communicating directly with the supplier to ensure proper delivery of goods or services. Upon receipt of the ordered goods or services, the agency must immediately verify that all specifications for goods or services have been met, the quantity of all goods is correct and the goods have not been damaged. If all conditions have been satisfactorily met, the agency must immediately submit the appropriate receiving document to BAPS.

As a result of the lack of prior verification and authorization by Fleet, four duplicate payments totaling \$8,370 were made in fiscal year 2002. In addition, the potential for errors in amounts billed regarding price, quality and quantity could exist, and remain undetected without a verification process in place prior to payment to the vendor.

**Recommendation**

**We recommend that Fleet establish procedures for the immediate processing of invoices so that the review and authorization process can be performed in a timely manner. BAPS should discontinue processing vendor payments without prior verification and authorization from Fleet personnel. Additionally, we recommend that Fleet and BAPS make every effort to collect all duplicate payments from the vendor.**

**Finding #3**

**Adequate supporting documentation for fuel purchases was not obtained and retained.**

**Analysis**

Adequate supporting documentation was not retained for some fuel purchases, fuel deliveries were not always measured using available meters, and evidence was not always available to demonstrate that a comparison between the invoice and the delivery ticket was performed. For the period from July 1, 2001 through June 30, 2002, we tested 29 invoices that consisted of 66 fuel deliveries to various City fuel stations. Our tests disclosed that:



- 20 delivery tickets could not be traced to Fuel Receipts Forms that document the quantities of fuel received at the stations. For 18 of these, Fuel Receipts Forms were not on file. The remaining two delivery tickets did not agree with the Fuel Receipts Forms on file.
- Shippers' Manifests were not on file for 12 delivery tickets. The Shipper's Manifest contains the name and address of the shipper, manifest number, location from which the fuel was shipped, shipping date, delivery destination, name of the carrier, description of the substance carried, number of gallons loaded (gross and net), driver's signature, and signature of the City employee receiving the shipment.
- 56 delivery tickets did not contain a meter-printed reading. According to Fleet personnel, the electronic fuel meter was bypassed in order to expedite the delivery process. Meter-printed readings are normally performed by the delivery personnel with meter equipment on the delivery truck.
- 36 deliveries did not have written evidence that Fleet verified information in the invoice to the delivery tickets.

#### **Recommendation**

**We recommend that Fleet obtain and retain copies of all pertinent supporting documentation for fuel purchased for use in City-owned vehicles. Meter-printed readings should be required for all fuel deliveries. We also recommend that Fleet's fiscal officer compare the vendor invoices to the delivery documents for every purchase and investigate discrepancies.**

#### **Finding #4**

**Fleet did not obtain the Oil Price Information Service (OPIS) fuel pricing information, as specified in the contract, to verify the propriety of prices paid for fuel.**

#### **Analysis**

Fleet did not request, nor did the vendor supply, the OPIS fuel pricing information. Therefore, procedures were not performed to verify the propriety of prices paid for fuel. The City of Baltimore Contract BP-99832 requires the contractor to invoice the City at the prior week's Baltimore averaged published posted price per gallon of product plus or minus a constant as quoted on Bid Proposal Sheets. Any decreases, reductions, or voluntary allowance of prices by the contractor shall be reflected in the invoice. A copy of the contract pricing, including the OPIS Average and Contract Constant, shall be furnished to the Buyer weekly.

Fleet personnel stated that they were not aware of this contract provision and, therefore, did not request the pricing information, nor did the vendor supply it to the City. As a

result, pricing verification procedures were not performed. We obtained the OPIS fuel price information for fiscal year 2002 from the vendor for audit purposes. For 22 of the 66 deliveries tested for fiscal year 2002, the price per the invoice did not agree with the OPIS price. The differences were minor, consisting of both minor overpayments and underpayments. The potential for more significant errors exists when there is no review of fuel pricing.

#### **Recommendation**

**We recommend that Fleet routinely obtain the OPIS fuel pricing information from the vendor for use in performing reviews of fuel prices billed.**

#### **Finding #5**

**Fleet did not request refunds of motor fuel taxes paid to the State of Maryland for fuel usage in off-road vehicles.**

#### **Analysis**

Fleet did not prepare or submit Gas Refund Reports to the State of Maryland requesting refunds of motor fuel taxes paid for fuel usage in off-road vehicles during the periods from July 1999 through November 2001 and March 2003 through February 2004. The Annotated Code of Maryland, Title 9-303 (b)(2), states that the motor fuel tax does not apply to fuel used for any purpose other than propelling a motor vehicle or turbine-powered aircraft. The City used a significant amount of fuel for “off-road” vehicles and equipment (lawnmowers, chain saws, etc.), which were not classified as motor vehicles. The City paid taxes on the total amount of fuel delivered because actual consumption was unknown until the fuel was disbursed. The City was allowed to submit refund requests for taxes paid for fuel usage in off-road vehicles and equipment.

Fleet personnel did not prepare the Gas Refund Reports for submission to the State during the aforementioned periods of time. Additionally, the fuel dispensing forms for the period from July 1999 through November 2001 could not be located. Based on an analysis of refunds that have been received for this contract, we estimate a potential recovery of approximately \$98,000 in overpaid taxes.

#### **Recommendation**

**We recommend that Fleet establish procedures to prepare and submit Gas Refund Reports to the State of Maryland as soon as fuel dispensing forms are received and verified. Additionally, the City should locate the missing fuel dispensing forms, prepare all omitted Gas Refund Reports, and submit the refund requests to recoup the overpaid fuel taxes.**

## **Appendix I**


**The Department of Public Works' Response to the**

**Performance Audit of**

**Contract BP-99832  
Gasoline and Fuel Oils**

**and**

**Auditor's Comments on Agency Response**

FROM	NAME & TITLE	Charles Krysiak, Division Chief II	CITY of BALTIMORE <b>MEMO</b>	
	AGENCY NAME & ADDRESS	Fleet Management Division 101 Dickman Street		
	SUBJECT	AUDIT OF CONTRACT #BP-99832		

TO

DATE: May 18, 2004

Ms. Yovonda B. Brooks, C.P.A.  
Department of Audits  
Room 321, City Hall

The Department of Audits has conducted a review of Contract BP-99832 gasoline and fuel oils.

We would like to take this opportunity to respond to these recommendations and to identify what corrective actions we will take to identify weaknesses.

- We recommend that Fleet establish written policies and procedures that define the objectives and operational responsibilities related to ordering, receiving and paying for fuel used in City-owned vehicles. Overall responsibility for the purchase of fuel should be established within Fleet.

**Fleet Management Division currently has a manual that covers all aspects of Fuel Systems operations and responsibilities. At this time the manual needs updating and some revisions. Also, we are currently evaluating the functions and options of the new Fuel Systems. This may require constant revisions to this manual as we proceed with implementation. Due to the uncertainties of the implementation process, Fleet Management will need until January 2005, to complete this manual.**

- Establish procedures to expedite invoice processing and to require Fleet Management Division's review, verification and authorization of invoices prior to the Bureau of Accounting and Payroll Services' payment.

**Fleet Management is currently working with Isobunkers LLC to establish an electronic invoicing system that would summarize transactions on a weekly basis. This file will most likely be in an Excel format and include all the required data fields necessary to reconcile delivery information and properly authorize payment. We have discussed this process with representatives of Accounting Operations and they are confident we can successfully implement this plan. We are currently using this process with vendors offering discount**

**payment terms. Although this contract does not offer discount terms we will use a similar payment process due to the critical nature of the commodity. We believe this process will be in place by 8/1/04.**

- **Retain adequate supporting documentation for all purchases and use electronic meters to measure deliveries of fuel.**

**Fuel Systems supervisors and pump attendants will forward all delivery tickets within 24 hours of the delivery. Attendants will use the Veeder Root electronic tank monitoring system to confirm tank inventory prior to fuel drop deliveries. Attendants will confirm the inventory by manual stick reading. After fuel drops are completed, attendants will confirm tank inventory with the Veeder Root system and manual stick reading to confirm that gallons delivered match the quantity on the delivery ticket. All fuel deliveries are to be metered in all City tanks.**

**Calls are received from fuel attendants at various locations stating the amount and type of fuel needed. All fuel requests are faxed to the supplier for next day delivery. Fuel attendants are required to stick their tanks before and after deliveries. Upon receipt of fuel, delivery tickets are forwarded along with the fuel sheets to Fuel Systems.**

**All drivers must be in possession of a City of Baltimore employee card and a vehicle card. Drivers must know the current odometer reading, which must be accurate in order to receive fuel. Vehicles that the attendant cannot identify as City owned vehicles do not receive fuel, and the vehicle description is immediately brought to the attention of the supervisor in charge of the facility to determine a course of action.**

**Rental vehicles fill up at Midtown Facility located at 405/425 Front Street. This is the only facility that can distribute fuel and truck rental car fuel transactions and all master card transactions.**

**(Please refer to attached memo, dated August 27, 2003 regarding procedures for fuel stations.**

- **Request oil price information service fuel pricing information from the vendor and verify that prices are consistent with industry guidelines.**

**Fleet Management Division has subscribed to the Oil Price Information Service (O.P.I.S.) Pad 1 Report. This will allow us to**

**verify the Baltimore area average price that invoicing is based on. This report will be sent via e-mail to Michael O'Connor, Accounting Supervisor on Thursday of each week. All invoices will be checked against this O.P.I.S. pricing report, prior to processing for payment. This process will be integrated into the electronic payment process previously addressed. Estimated completion date is 8/1/04.**

- Request, in a timely manner, refunds from the State of Maryland for fuel taxes owed to the City for off-road vehicle usage.


**The Fleet Management Division and the Mayor's Office of Information Technology have been trying to extract fuel tax data from the old legacy accounting files. To date, all attempts to extract the data have been unsuccessful. Without the data we have been unable to file for fuel tax refunds for the 1999 through 2001 calendar year. Fleet Management is currently extracting information from the new faster system and will file fuel tax refunds for 2003 by 8/31/04.**

CHARLES KRYSIAK  
DIVISION CHIEF II

CK/lwl

Attachment

cc: Bob McCarty  
Dept. of Audits

FROM	NAME & TITLE	Robert Gibson, Supervisor II	CITY OF BALTIMORE  <b>MEMO</b>	
	AGENCY NAME & ADDRESS	Fleet Management Division		
	SUBJECT	PROCEDURES FOR FUEL STATIONS		

TO

DATE: August 27, 2003

All DPW Fleet Management Division Employees  
All City of Baltimore Authorized Drivers

Standard Operational Procedures for all Fuel Stations should be as follows:

**Opening of the Pumps:**

*Beginning of shift*

Dip tanks for inches reading; measurements should be within 1/4". Dip sticks should be calibrated in 1/8" increments. Plastic button on the bottom of the sticks should be intact, if not replace dip stick.

Using conversion/tank chart, determine gallons for each tank.

Fill in Fuel Dispensing Report. Write in Totalizer numbers for each pump.

Use red master card to log-in the current readings:

Unleaded = fuel type 2      Diesel = fuel type 5

*End of shift*

Same as above.

\*Beginning of this shift and ending of previous shift data should compare as the same information. Fuel Dispensing reports are to be forwarded to Fuel Systems within 24 hours.

**Fuel Issue**

**ALL** City of Baltimore vehicles are issued white fuel cards. **ALL** authorized drivers are to have yellow personal fuel card. No cards, no fuel, with the following exceptions:

**EMERGENCY vehicles**- Fire Department, Medics, Police Department and Water Emergency vehicles will be issued fuel to completely fill the tanks. The vehicle number is to be written on the daily Fuel Issue Sheet. Also, include the mileage, gallons issued, the driver's printed name, and agency phone number

**NON-EMERGENCY vehicles** will be given *no more than five (5) gallons* of fuel, to allow the driver to go to his yard and retrieve the vehicle's fuel card. The vehicle number is to be written on the daily Fuel Issue Sheet. Also, include the mileage, gallons issued, the driver's printed name and agency phone number. Repeat offenders will be denied fuel and directed to the Chief's office.

If the fuel card is lost, the driver should be directed to Fuel Systems.

## **MASTER CARD FUEL ISSUE**

Slide red Master card through and follow instructions on the computer prompter.

*At least one of the fuel cards, personal or vehicle, must be available to use the Master card to issue emergency fuel.*

Policy will be amended and updated as needed, without prior notice.

Your cooperation in this matter is expected.

Robert Gibson  
Supervisor II

cc: Charles Krysiak, Administrator  
Ron Wilson, Assistant Chief  
Valerie Jefferson, Office Manager  
Frank Jenkins, Coordinator  
Dwight Daniel, Coordinator



**Auditor's Comments on  
The Department of Public Works' Response  
To the Performance Audit of Contract BP-99832  
Gasoline and Fuel Oils**

In its response to our audit recommendation for Finding #1, the Department of Public Works, Bureau of General Services, Fleet Management Division (Fleet) stated that it currently has a manual that covers all aspects of Fuel Systems operations and responsibilities. When we requested a copy of written policies and procedures during our audit, we were informed that they did not exist. Subsequent to our exit conference, Fleet became aware that it had a manual, however, we were told that the manual is outdated and does not cover all of the objectives and operational responsibilities related to ordering, receiving and authorizing payment for fuel used in City-owned vehicles. Although we requested a copy of this manual, it was not provided to us.

Also, in response to our audit recommendations for Findings #2 and 3, Fleet did not address:

- Corrective action to prevent the payment of vendor invoices prior to Fleet's authorization;
- Recovery of duplicate vendor payments totaling \$8,370; and
- Comparisons of vendor invoices to delivery documents and the retention of documentation for fuel purchases.

Finally, in its response to our audit recommendation for Finding #5, Fleet stated that it was unsuccessful in all attempts to extract fuel tax data from the old accounting files, and without that data, it has been unable to file for fuel tax refunds for the calendar years 1999 through 2001. However, Fleet should continue its efforts to locate the missing fuel dispensing forms and submit the refund requests to recoup the overpaid fuel taxes for the period from July 1999 through November 2001. In addition, Fleet did not address our recommendation to routinely prepare refund requests when dispensing forms are received and verified.